



## Section 6: Financial Update

### Activities/Milestones Last Quarter

#### FY04/06 Biennium Budget Request for General and Special Funds

For its general and special funds, VITA developed its FY04/06 biennium budget requests, which were approved by the Information Technology Investment Board at its November 5, 2003 meeting. The approved initiatives include:

- CIO compensation;
- Agency transition funds, to support transition costs in the agencies;
- Continued VITA start-up costs;
- Statewide acquisition services support;
- Start-up equipment out-year costs;
- Project management requirements, to support *Code* requirements;
- Administrative support for general and special fund programs;
- Server consolidation investment, to achieve savings; and
- E-911 technology improvements (subject to Wireless E-911 Services Board concurrence).

These requests were considered along with all other agencies' requests in the development of the Commonwealth's proposed biennial budget, and the following were approved for inclusion in the Governor's Executive Budget submitted to the General Assembly on December 17, 2003:

- [To be added to final report]

A summary chart with associated dollar estimates is provided in Appendix 6-1.

#### Section Highlights:

- *Rates for new services were developed for review and approval by the IT Investment Board and JLARC.*
- *FY04-FY06 revenue and expense estimates were developed for all services.*
- *FY04/06 Biennium Budget Requests were approved by IT Investment Board and submitted to the Department of Planning and Budget.*
- *FY 04 general funds for start-up costs have been received.*
- *Revised VITA revenue and expense projections indicate an \$8.3 million shortfall in FY 04 and surpluses of \$1.8 million and \$3.4 million, respectively, in FYs 05 and 06.*

## Revenue and Expense Estimates

VITA has three basic fund types (general funds, special funds and internal service funds), each of which is described in further detail below. Appendix 6-2 provides revenue and expense estimates for all funds.

### General Funds

General funds are appropriated by the General Assembly and provide funding for:

- Project management and enterprise-wide strategic planning and policy programs (Strategic Management Services Directorate);
- Statewide coordination for geographic information systems and related applications (VGIN Division); and
- VITA start-up initiatives, including the establishment of the VITA Customer Care Center for help desk and service desk customer support, security and disaster recovery, the VITA Information Center for products to analyze and manage VITA's statewide data network, and limited desktop services.

Because general funds must be used in the year appropriated and expenses may not exceed appropriations, revenues and expenses are equal. For FY04, general funds provide \$7.5 million, or 3 percent, of VITA's total projected expenses.

### Special Funds

Special Funds are also appropriated by the General Assembly, and provide funding for the following specific purposes:

- Web portal and web services (VIPNet);
- Supplemental funds for geographic information systems and related applications (VGIN Division);
- Grants to Virginia localities for deployment of enhanced emergency telecommunications systems (E-911 localities fund);
- Grants to wireless system providers to support deployment of enhanced emergency telecommunications systems (E-911 providers fund); and
- Operating support to the E-911 program (Public Safety Communications Division).

For FY04, VITA is projecting Special Funds spending to account for \$67.7 million, or 30 percent, of its total projected expenses.

### Internal Service Funds

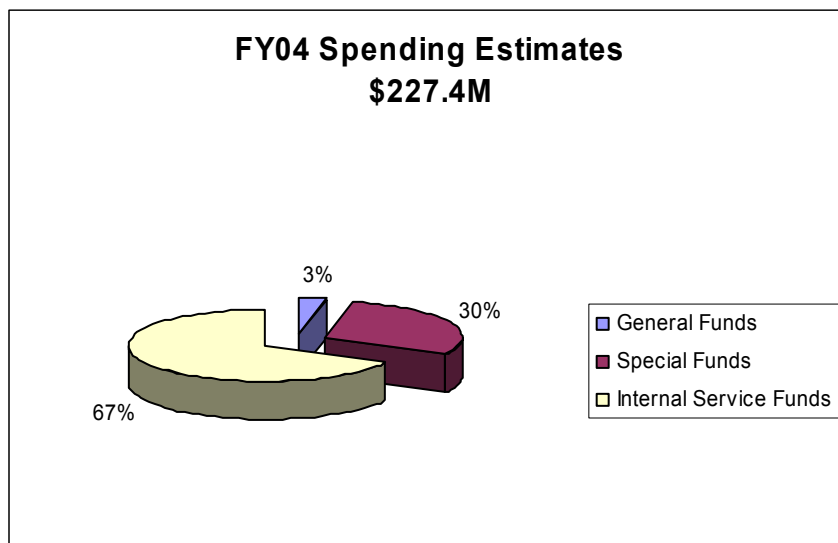
Internal Service Funds are used by VITA to recover the costs of the services it provides to its customers. VITA charges for the services it provides through rates that are approved by the IT Investment Board and the Joint Legislative Audit and Review Commission (JLARC).

For its Internal Service Funds, projections have been revised since the August 2003 Operating Plan for planned revenues and expenditures associated with both existing and new services. New services include desktop and laptop support, server support, and network equipment and other hardware. Projections for these new services are based on the transition schedule shown in Section 2 of this Operating Plan.

Shortfalls are now projected in Fiscal Year 2004 based on additional VITA staffing and related expenses in FY04 necessary to gear up for the statewide IT consolidation effort, reduced revenues and increased expenses associated with the new COVANET telecommunications contract, and elimination of an anticipated under-spending estimate that was included in the previous projection. Fiscal Years 2005 and 2006 project a small surplus each year. VITA financial staff is continuing to refine these estimates as new information becomes available.

For FY04, VITA is projecting to spend \$152.2 million in its Internal Service Funds, which accounts for 67 percent of total spending.

**Exhibit 6-1**  
**FY 04 Expenditure Estimates by Fund**



As previously reported in the August 2003 Operating Plan, \$14 million in general funds was provided for “start-up” costs in the 2003 Appropriation Act. These funds are being expended as follows:

- \$3.7 million to hold harmless small and medium agencies for FY04 IT savings deducted from their budgets in the 2003 Appropriation Act;
- \$3.3 million for the VITA Information Center;
- \$3.2 million for the VITA Customer Care Center;
- \$2.7 million for network security, including VITANet;
- \$0.2 million for desktop services;
- \$0.6 million for VDOT transition support; and
- \$0.3 million for agency standardization and optimization needs.

Of these amounts, approximately \$1 million in equipment purchases will be financed over the FY05—06 periods. Additionally, the Secretary of Finance and the Secretary of Technology have agreed that approximately \$4 million for these start-up expenses will be charged to VITA’s Internal Service Funds accounts in lieu of a \$4 million transfer for IT

savings from these same accounts. The net effect to VITA is zero, but \$4 million in expenses will be shifted from general funds to Internal Service Funds in FY04.

## **Rates for New Services**

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VITA has developed interim rates for new services that it will provide to its customers for desktop and laptop support, server support and network equipment and other hardware. These rates have been submitted for approval to the Information Technology Investment Board and JLARC and are shown in Appendix 6-3. It is anticipated these rates may remain in effect for up to 24 months. A commitment has been made to JLARC to review these interim rates based on June 30, 2004, information and update if necessary.

Based on information gathered by VITA during its "due diligence" inventory efforts earlier this year, VITA will be supporting and charging customers through its rate structure for 2,968 servers; 49,588 desktops; 8,133 laptops; 5,841 telecommunications data devices; 1,868 telecommunications voice devices; and 122 other hardware devices. The proposed rates include service support personnel, VITA Customer Care Center (help desk and service desk) support, security hardware and support, annual licensing, hardware replacement and maintenance, server operating system software, desktop standard software suite (operating system, anti-virus, email, and office automation products), LAN shared peripherals, and disposal service support.

## **Billing Systems**

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VITA is in the process of defining and implementing both short- and long-term plans to upgrade or replace its billing systems in order to accommodate its new services.

In the short-term, VITA will use its Miscellaneous Billing System to support billing for small agencies while upgrading one of its automated systems in order to bill all agencies for new services. For the longer term, new commercial-off-the-shelf billing applications are being explored to replace existing systems for all services, as well as to integrate with an asset inventory system and the agency's procurement system, creating a seamless process for ordering equipment, updating inventory data, and creating bills from the same database.

## **Savings, Cost Avoidance, and Productivity Gain Initiatives**

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VITA is committed to producing savings associated with the Commonwealth's information technology consolidation as quickly as possible. Key to achieving those savings is to transition first, transform second. A number of initiatives are under review while others have been accomplished.

The following major initiatives and associated annualized amounts have been accomplished thus far in FY04:

Initiative	Annualized Savings/Cost Avoidance
Procurement Initiatives	\$10,700,000/cost avoidance
Cell Phone Plan Analysis	\$1,186,000/savings
Voice and Data Service Contract Rate Reductions	\$528,000/savings
COVANET Contract Savings	\$3,084,800/savings

The following major savings initiatives are under review:

- Centralized system/network management;
- Consolidation of COVANET infrastructure;
- Enterprise message consolidation;
- Help Desk consolidation;
- Software license consolidation;
- Standard desktop imaging;
- Interactive voice response system;
- E-mail consolidation;
- Local telecommunications service rate reductions; and
- Statewide call center.

It is important to note that savings generally accrue in the agencies that VITA supports. As VITA lowers information technology costs, they are passed along to the agencies in the form of rate reductions. Savings are not maintained at VITA. Both Secretary of Technology and VITA staff are in discussions with senior Commonwealth leadership and the Information Technology Investment Board on ways to redirect savings for future technology investments.

## Activities/Milestones Next Quarter & Beyond

### Finance Initiatives

In the coming quarter, several initiatives are being undertaken in the financial arena:

- Continued refinement of the Internal Service Fund financial plan;
- Finalization of plans to upgrade or replace VITA billing systems and related asset inventory systems;
- Approval of revised VITA directorate budgets to reflect final FY04 decisions and increases necessary for support of transitioned agencies;

- Continued review of savings, cost avoidance and productivity gain initiatives; and
- Establishment of performance indicator monitoring process.

## **Performance Indicators**

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VITA will be utilizing the following monthly performance indicators to monitor financial performance for the agency:

- Budget versus actual variances;
- Prompt payment performance;
- Percent of reports completed according to schedule;
- Percent of billings provided to agencies according to schedule;
- Receivables aging; and
- Percent of telecommunications vendor invoice amounts withheld by VITA.